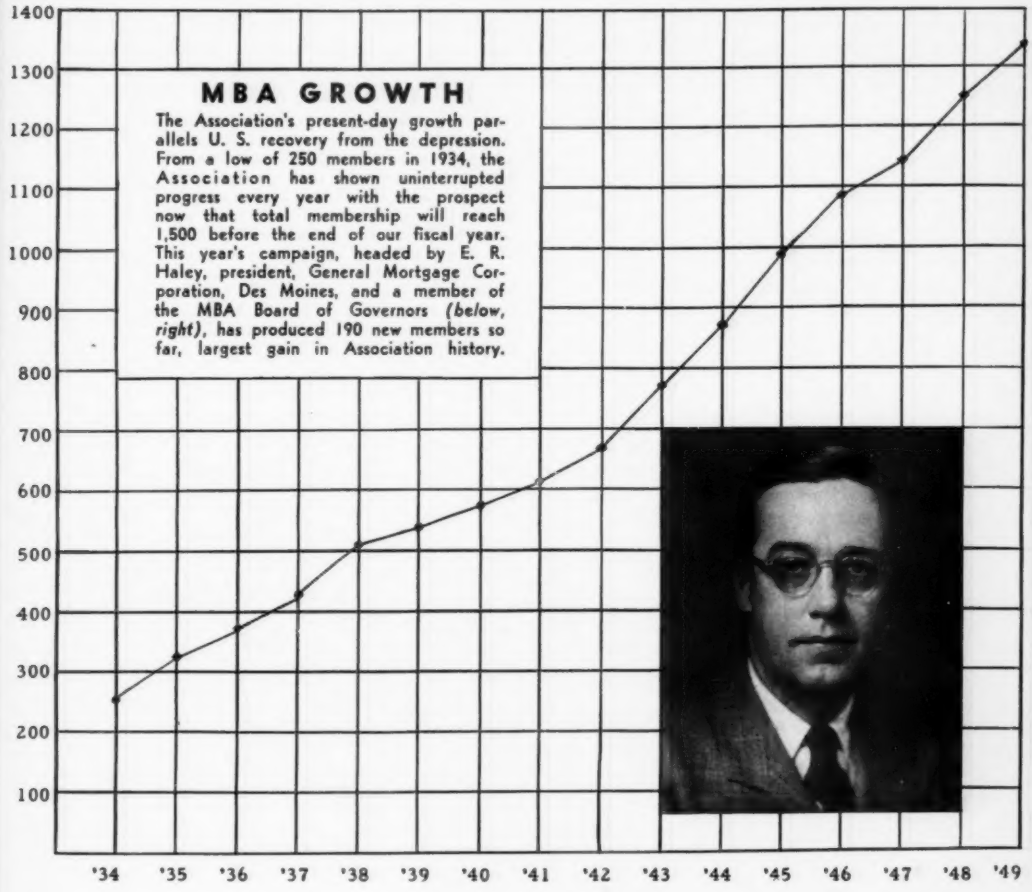
The Mortgage Banker

MAY 1950



MBA GROWTH

The Association's present-day growth parallels U. S. recovery from the depression. From a low of 250 members in 1934, the Association has shown uninterrupted progress every year with the prospect now that total membership will reach 1,500 before the end of our fiscal year. This year's campaign, headed by E. R. Haley, president, General Mortgage Corporation, Des Moines, and a member of the MBA Board of Governors *(below, right)*, has produced 190 new members so far, largest gain in Association history.

For current report on membership, see page 24

In this Issue DR. NOURSE LOOKS AT THE WEAK FACTORS IN TODAY'S PROSPERITY ★ H. R. TEMPLETON TELLS WHY BUILDING COSTS MUST BE CUT

President's Page

TO OUR MEMBERS

I am glad to report considerable progress in recovering from my automobile accident in February and the probability that I shall suffer no permanent disabilities. While still confined to my home and traveling on crutches, I hope to be active again before too long and resume my responsibilities to the Association which I have been unable to discharge these past two months.

R. O. Deming, Jr.

I want to express to the membership my appreciation of the many fine letters and wires I have received and the debt of gratitude that I owe to Bill Clarke, Milt MacDonald, Sam Neel, George Patterson, George Knott and all committee members, particularly the Executive Committee, which has met many times during the past year, for having carried on the work of the Association in such a commendable manner.

The response of our membership to Sam Neel's suggestions regarding our opposition to the middle income legislation was gratifying. Our contribution was an important one in the defeat by Congress of this legislation.

While we have won a substantial victory, we and other groups as well must realize that this is not the end of this legislation. Mr. Foley has said it will come up again and Sen. Sparkman told our New York Conference that we should have it "sooner or later."

It will probably become a campaign issue this fall. I urge continued effort from all members against this type of legislation as well as continuing to encourage sound federal legislative measures for the protection not only of our clients and borrowers but also for our national economy.

It is gratifying to note that several of the constructive suggestions made by MBA have been endorsed and are included as a part of the housing legislation as finally passed by the House and Senate. We were unable to defeat the limited direct lending program by VA to veterans but I believe the intention of Congress will be carried out and these funds will be made available only to GI borrowers in small isolated communities where credit has not previously been available. This was certainly the intention of Congress.

Our two suggestions regarding FNMA apparently will be adopted. The first, which will require additional legislation to make Fanny May a secondary rather than a primary market, is sponsored by Mr. Foley of HHFA and apparently has Administration backing. It will eliminate some drain on the federal treasury over future years.

Our suggestions to RFC and FNMA pertaining to restrictive commitments upon Fanny May's return to the market has borne fruit and we can feel fairly well assured that the funds available for mortgage purchase by FNMA will be equitably spread over the United States rather than to be thrown into several major sub-divisions in the metropolitan centers. Mr. Dougherty emphasized that fact at our New York Conference.

The increase in the loan guaranty on GI mortgages should make them more attractive for investment of private funds and thus enlarge the market. This should be particularly true if legislation is passed which will create FNMA as a secondary market with the right of the sale of mortgages to FNMA six months after they have been insured.

Fanny May is selling a considerable amount of mortgages and has options out on a much larger volume. When exercised, Fanny May's purchasing power should greatly exceed the $250 million new authorization.

The flow of money into the lending institutions so far this year is continuing at a very high rate which should insure a continued active demand and outlet for home loans, both for new construction as well as absorbing a sizable percentage of FNMA holdings.

More strict supervision of lending policies on the part of our membership, as well as federal agencies, is, in my opinion, greatly to be desired and may probably become more apparent in the fall of 1950 than was true in 1949.

This report would not be complete if I did not thank all of our members for the active solicitation of new members and the excellent results obtained. We have the largest new membership approved for the first six months of this year that we have ever had and a great deal of credit is due Pat Haley, our able National Membership Chairman.

The financial condition of the Association, in spite of our increased activities, remains excellent —thanks to the increase in dues and our new members. Thus, the expanded activities carried to our membership in the form of clinics, while expensive, is not proving in any way financially embarrassing. It is estimated that probably as many as 2,000 will benefit from the regional meetings being conducted this year by W. A. Clarke and Milt MacDonald.

Both the Chicago and New York Mortgage Conferences reached new highs in registration.

Again, may I apologize to our group for my inability for the past two months to adequately meet the full duties of my office and again say "thanks" for the tolerance and cooperation that has been shown to me.

R. O. Deming Jr.

President
Mortgage Bankers Association of America

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MBA CALENDAR

May 19 CHICAGO, Spring Meeting MBA Board of Governors, Drake Hotel.

June 19-23 CHICAGO, Third annual Mortgage Banking Seminar held in cooperation with Northwestern University.

September 27-29 DETROIT, 37th annual Convention and Exhibit of Building, Industry and Services, Statler and Book-Cadillac Hotels.

MBA PUBLICATIONS

(Current and Coming)

MBA DIRECTORY, issued every other year. Each MBA should have received his 1950 copy in the past 10 days; additional copies available at $1 each.

MORTGAGE LOAN SERVICING PRACTICES by William I. De Huszar. First book on mortgage loan servicing published. Additional copies available to members at $2 each; to nonmembers $3.50 each.

TEXTBOOK ON MORTGAGE BANKING, Robert H. Pease, Editor. To be published by McGraw-Hill Book Company, Inc., New York.

MBA POCKET MANUAL—Annual compilation of MBA committees for the current year, officers and other groups within the Association in addition to constitution, by-laws and other data.

DESIGN FOR DOING, DEVELOPING AND DELIVERING MORE MORTGAGE BUSINESS. Membership booklet being used in this year's solicitation. Members should request a supply for use in making membership presentations.

OTHERS — *Advertising Service,* periodical compilation of current mortgage advertising. *Letters to Members,* both from the Chicago headquarters and the Washington office, covering matters of current importance. *Management Ideas,* issued periodically.

The Mortgage Banker

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Contents

We Have Prosperity Now, Yes, But How Stable Is It?

By DR. EDWIN G. NOURSE

AS I LOOK at the current business scene, it appears that the factors which have contributed to the current rather complacent view are those of superficial business strength or temporary economic trends, and that if we are to conduct ourselves prudently to get all the prosperity out of 1950 and 1951 that there is potentially in these years, we need to check *superficial* against *fundamental* factors.

The conditions we shall confront later this year and in subsequent years are not reassuring but are gravely disquieting. They constitute a danger that we may throw away the strength of our sound foundation in basic economic resources. This danger stems from imprudence or ineptness which we, as a people, are showing in dealing with the general fiscal and monetary structure for which we, through our representative government, are responsible. Only by keeping our money sound can we have conditions within which private business operations can go forward confidently and successfully.

Let's turn the searchlight on certain phases of current production:

›› *First,* current prosperity is, to some extent, being supported by a special deficit-creating and non-recurring federal contribution of $2.8 billion to the private income stream in the form of a refund of G. I. insurance premiums. To the extent that volume of business, prices, and profits are sustained by this marginal element in consumer income, it rests on a superficial, artificial, temporary, and inflationary kind of support. More than half of the total has already been disbursed and the whole injection will have been completed by midsummer.

›› *Second,* consumer purchases have been supported by an unprecedented rate of increase in installment and book credit, not to mention the drawing down of wartime savings, particularly through the cashing of E-bonds. The figure for consumer credit in December 1949 stood at an all-time high of $18.8 billion and in both November and December showed unprecedented month-to-month increases. It does not seem likely that the consumer goods market in the latter part of 1950 and in 1951 can be sustained through a similar rate of increase. Even for it to level out would have a mildly dampening effect; and reduction in the rate of new consumer credit extension, even though far short of complete stoppage, would have a still more noticeable effect.

›› *Third,* there has been a tremendous increase in mortgage credit, particularly on urban dwellings. One does not have to suggest that a single one of these mortgages is overextended or inadequately secured. The mere fact that so much strength has taken place in that part of our economy and that recent and current strength rests in some part on that expansion raises a cautionary signal for the future. Is similar expansion in this area going to contribute to the maintenance of the present rate of prosperity? And what will be the consequences of a possible slowing down of this rate of expansion of long-term credit?

›› *Fourth,* though no one can predict the outcome of the political dog fight over agricultural support measures, the sheer weight of accumulating surpluses is beginning to have its inescapable effect on the farm commodity market. The Department of Agriculture predicts a lower rate of farm income this year, subject of course to arbitrary assumptions as to the weather. That might lessen or increase the depressing effect on farm income, but it seems clear that, with the rate at which the rural population has been putting high earnings into farm and home equipment, this is a class of postponable expenditures which is now highly sensitive to any decline in farm income.

›› *Fifth,* businessmen and economists attach prime importance to the outlook for expenditures on capital goods. This item in total business spending has been maintained at an extremely high figure during the postwar reconversion period, with a peak of $19.2 billion in 1948. From a rate of $21.6 billion in the fourth quarter of 1948, it dropped to a quarterly rate of $15.3 billion for the first quarter. Meanwhile, industrial construction and engineering contracts have shown a quite favorable figure thus far in 1950. We have the fundamental confidence that this is a great and growing country with adequate financial reserves to go on modernizing and enlarging our plant in full step with the demands of advancing technology and the remarkable "upsurge in population growth" which is now quite demonstrably under way.

Even admitting all these things, we are still left in doubt as to what *is* the maintenance rate for capital goods

Times are good, the outlook is good and everything points to more of the same. There's wide agreement on that and dissenters aren't numerous. But is it all as rosy as it appears? Dr. Nourse doesn't think so, although he is generally optimistic in his appraisal of the near-term business outlook. Here he sets forth the leary factors in the present business situation and tells why he thinks there is cause for deep concern. Dr. Nourse of course is known to just about everybody as the recent chairman of the President's Council of Economic Advisers, a post he held until he could not go along with the policies that motivate current federal thinking and action.

which would be called for by a maximum production economy over the next few years and decades. Unfortunately, we are confronted also by a lack of complete certainty that our business system under the general conditions provided by government will go confidently ahead to achieve that condition of maximum production.

One thing we do know is that the process of postwar reconversion has now been so fully completed and the catching-up process has now covered the lines of even the heavy industries to an extent that a change of pace in this field of expenditures is now possible and might run to a considerable number of percentage points.

This is just another way of saying that, while this is a vital area of expenditure, it is also an area in which expenditures in the main fall into the class of those most "postponable." Contrary to the clamorings of certain government spokesmen for a great expansion in steel capacity, we see current ability to produce quite well in step with sustained needs, though outlays for development of foreign sources of ore supplies abroad or for beneficiation plants at home loom clearly in the future—and are already being given constructive attention. The late war and recent armistice in the coal industry make it clear that there is a substantial amount of excess capacity.

» One final factor needs to be taken into account in attempting to gauge the strength of this phase of our general business situation. That is the impact of recent pension settlements on the financial plans of companies. With the completion of pension contracts in the great basic industries, coal, steel, and automobiles, it is pretty clear that the sporadic development of company pensions which we had in the past will give way to a rapid sweep of pension plans throughout industry.

Negotiated as these plans were under duress, even the companies that have already signed contracts are by no means sure of the actuarial conditions that will have to be met or of the funding arrangements which, in common business prudence, will have to be provided.

This is no place to try to analyze the current pension issue. But it does seem to be pertinent to suggest that perhaps companies which are being hurried into pension responsibilities that they have not yet fully chewed over and assimilated may be somewhat slower to make improvement and expansion outlays than they would be if this particular problem had not been added to their previous sources of uncertainty.

I'm *not* prophesying. What I've said here does not necessarily presage a business depression either in late 1950 or at any other time. I have simply sketched five points that seem significant in the current business picture and that do not seem convincingly covered in accounts of the current tide of prosperity. I raise the question whether the current performance is in the nature of a sprint in the back stretch rather than a manifestation of timing, good judgment, and stamina which assure the successful conclusion of a long-distance race or marathon.

A Skittish Animal

No one can tell whether one or another cause of uncertainty, if it becomes a factor in decision in certain quarters, will then spread a mental contagion, so that sober concern gives way to apprehension, that apprehension turns to jitters and jitters engender panic. But we do know that the great business public in a free enterprise system is a mighty skittish animal and that blind behavioristic fear, once started, can stampede even an intelligent people of high average education in truly terrifying ways.

As I read the history of our own past and annals of other countries, I am impressed with the fact that one point from which influences of the most deep-reaching and far-reaching sort emanate and the point also at which, given intelligence and determination, measures of protection and stabilization can be applied is in connection with the fiscal and monetary operations of the government. Whatever debate may rage, as to whether the government is called upon to do this or estopped from doing that, there is no debate about the constitutional mandate to maintain a sound and adequate currency.

We need not be too ashamed of the way in which, amid the terrific pressure of fast-moving war developments, we provided the sinews of war and got the job done. We may be less complacent as to the intelligence with which we have faced the task of strengthening our financial affairs since the war, assisting the country to get on a workable set of wage-price relationships, on a new price level consistent with the existence of that large debt.

Measures that forced the level too low would be deflationary and constrictive to the economy. Measures that permitted a level too high would be inflationary and, although they eased immediate tensions, would compound longer-run problems and invite the possibility that the whole system may get out of hand. This is the fundamental factor in the business situation of 1950 which, in my judgment, underlies the superficial manifestations of current prosperity and which may challenge and quite possibly upset the whole prospect in the not distant future.

The Administration avows a balanced budget policy, meaning a budget balanced over a period of time reasonably fitted to the ups and downs of business operation, and the exigencies of government. It talks of a compensatory budget in the sense of public support operations in times of national emergency or general depression.

If such a policy of balancing the books and maintaining the confidence of the people is carried out, it calls for the accumulation of sizable treasury surpluses in years of high prosperity that the debt may be prudently managed, the credit position of the country improved, and reserves accumulated to permit of support operations in depression or of meeting the financial strain of a cold war grown hot.

This worthy theory is completely stultified by the spectacle of a Treasury deficit of $1.8 billion in fiscal 1949, the culminating year of the postwar inflationary boom and by a financial program which calls for deficits of at least $10.5 billion for fiscal 1950 and 1951. Even if the results proved no worse than the official estimates — and there are plenty of reasons to think they might be worse —this would mean that in times of peace and prosperity, we were slipping into deficits as a way of life and that the already gigantic debt forced upon us by the late war would again be on the upward climb.

Many people in high places express no concern about this and aver that inflation can be contained and that a

(Continued page 16, column 1)

What This Country Needs

Is Reduced Cost of Houses Not Reduced Size of Houses

But the planners will not get it by trying to further reduce the already low financing cost

By H. R. TEMPLETON

THE cost of mortgage credit in the construction of a house is a relatively minor matter.

Now, before some agile exponent of the school of misinformation takes that statement and slips it a "mickey," I will back it up with some figures. They are from my own files and relate to speculative housing built for sale to veterans. The sales are financed by loans under 501, 505, FHA and conventional, according to the requirements, but made for our own portfolio and not for sale to FNMA or anyone else. Here they are:

» Fifty houses selling for $320,050, where all money was furnished, the interest charge was $3,884.58, or a little less than 1.22 per cent of selling price.

» Fifty houses selling for $433,830.75, where all money was furnished and the interest charge was $4,160.59 or a little less than .96 per cent of the selling price.

» For speculative construction loans of $1,118,800 made to four contractors on 149 houses with a selling price of $1,530,750, interest of $16,532.23 was collected during the period of construction. The interest collected was 1.08 per cent of selling price and about 1.48 per cent of total loans. No construction loan fee was collected, and if one should be collected, it would increase the financing cost by that amount.

Reduce Price, Not Size

These few examples reflect what a small part is the financing cost in building a house. If someone wants to argue that interest is a continuing charge on home owning as long as the mortgage continues unpaid, then the sincere interest in the welfare of the veteran on the part of those supporting the overly long repayment program might well be questioned.

Why make the veteran pay interest for so many years? Many mortgage bankers are for selling him a house he can afford, with a debt he can pay before old age overtakes him. Is it possible that the house building industry has taken the cost of house building to a price where they have exhausted the supply of ready buyers with income sufficient to repay the mortgage within what has been considered a normal period of time? Is that why it is necessary to try to get the repayment period extended that a new crop of buyers may be brought into the market? Why not try what would seem to be a perfectly obvious solution?—reduce the price of the house to the veteran. Reduce the *price* of the house—not the size.

While everything else has been in short supply, mortgage money has been plentiful. While everything else has been high in price, house-building money has been at a record low.

When speculative prices on houses increased with demand, when contract building of houses was entered into only under a cost-plus contract or a contract with an escalator clause, when material prices increased without warning, when sub-contractors changed prices with what seemed unnecessary frequency, and when labor insisted on wage negotiations and increases each year, money for home building was either declining in cost or remaining stationary at a level lower than ever before.

This has not prevented other parts of the home-construction industry from originating and supporting an effort to lower the already low interest rate and extend the term of

Builders generally take a dim view of realizing any substantial cut in the cost of housing in the foreseeable future. Raymond M. Foley, HHFA administrator, vigorously disagrees and says the primary objective in the entire housing field today is cutting costs. He is convinced that it can and must be done.

Mr. Templeton has the same general view and says that everyone who has a stake in construction and construction financing ought to be turning his attention to this possibility rather than — as plenty of the planners are doing now — wasting their time concentrating on extremely low interest rates and other financial schemes. These won't reduce costs anything to speak of and will bring chaos to the whole financial economy. Financing is the one thing in a home buyer's or home builder's cost that hasn't joined in the inflationary advance. It is still the one bargain item.

H. R. Templeton

Mr. Templeton is vice president of The Cleveland Trust Company and a member of the MBA board of governors and speaks frequently at the Association's meetings.

THIS HOUSE *is bought by a veteran for $10,000 with 100 per cent financing and he pays for it over a term of 25 years. His total payments over the 25-year period will be $3,181.80 more than if he had bought the same house for $8,700.*

repayment so that mortgage debt could be more easily carried. They called it "decreasing the cost of housing." Continuous effort has been exerted (and it was successful) to increase the ratio of mortgage to price and thereby decrease the amount of down payment required to purchase a home.

This is an effort to increase sales by making it possible to sell higher-priced houses to persons with smaller cash or asset accumulation. But mortgage bankers have been asked to accept a fixed return, for a period of 20 to 25 years, to cover their costs, overhead and profit—and this at a time when the home construction industry questioned its ability to figure accurately its own costs, overhead and profits as of today, to say nothing of tomorrow. These are the conditions under which we have made many of the mortgages now in our portfolios.

These Full Loans

We have been asked to believe that it is perfectly safe to make a full loan against a man's present income, thereby making it impossible for him to accumulate a nest egg against unforeseen contingencies. We have been importuned by speculative builders and badly-advised prospective borrowers to add overtime or problematical income from other activities, or the wages of a twenty-year-old-bride to basic income to qualify a larger mortgage.

We have been asked to believe that there will be no period of unemployment, no illness of the wage-earner, no illness in his family causing heavy drain on his budget, no strikes in his industry, no strikes in the coal or steel industries causing shutdowns, and no other upsets of any kind to disrupt his plans.

Any analysis of the cost of home building should certainly include a consideration of the effect of low interest rates, small or practically nonexistent down payment and extended term of repayment. These three elements tend to disregard the question of what a house is worth, how much down payment has been accumulated and how much debt is being assumed.

These three elements have contributed more to the increased price of housing than any other factors. They stimulated housing demand to the extent that building trade wage scales were disregarded and bonuses paid; cost of material was unimportant as compared to date of delivery—the important consideration in dealing with the sub-trades of the home building business was when the job would be started and not how much it would cost.

It has stimulated the housing demand to the extent that efficiency of operation was not necessary because excess cost could be sold at a profit. It has permitted the smart operators to make unreasonably high profits and the inefficient to stay in business. All of these things are at the cost of either the purchaser of the property or the taxpayer. If the borrowers do not pay out, then the taxpayers hold the bag.

I am not excusing these mortgage men who, for a fee, will finance anything FNMA will purchase. I am not excusing the mortgage money that will make any loan that can be insured or guaranteed regardless of the effect the making of that loan may have on the welfare of the borrower.

Certain veterans' organizations have supported a program of lower interest rates, smaller or no down payments and a lengthened repayment program. I can understand their desire to secure the best possible deal for the veterans. But is it the best possible deal when the purchase price paid by the veteran is not questioned? If the question of price has been officially raised by any of these organizations, it has escaped my attention.

Is it fully representing the veteran to go along blindly selling him a house at a price requiring 25 years to repay a mortgage of 100 per cent of the purchase price when a reduction of *only 13 per cent* in the price of the house would permit him to repay a mortgage of *100 per cent of the reduced price of the house in 20 years?* Why be so careless of the veteran's years? He has already given some years in the service of his country. Why not really wake up and represent him?

Vet Groups Should Speak

The Servicemen's Readjustment Act was enacted for no one but the veteran. In it, the lender is limited to the rate of interest he may charge and the rules are laid down as to how he must do business with the veteran. The house building industry, while controlled as to the price of homes when dealing with in-migrant labor back in 1941, is given a "God Bless You—build houses" when dealing with the veterans. The interest rates from 1940 to date have declined at least 10 per cent and cost of building a home for the veteran, according to Roy Wenzlick, has increased about 137 per cent in the same period of time. Why aren't the veterans' organizations which are supporting lower interest rate, no down payment and extended term of repayment, worrying about how much a veteran pays for his home? Why are politicians, congressmen and some home builders so positive that the way to make it possible for a veteran to own a home is to lengthen the term of repayment of the mortgage? If the cost of the house were decreased 13 per cent (and I am not convinced that it cannot be cut more) the same

SAME HOUSE, ***then, at $8,700, would have cost $1,300 less and with 100 per cent financing, he would have had the same monthly payments and retire his debt in 20 years. He would have saved the original $1,300 and also $1,881.80 in additional interest charges.***

monthly payments now requiring twenty-five years to satisfy the mortgage, would pay the decreased cost in twenty years. This is certainly a saving of payments for five years.

A veteran buys a home for $10,000 with 100 per cent financing and pays for it over a term of 25 years. His total payments over the 25 year period will be $3,181.80 more than if he had bought the same house for $8,700—or $1,300 less with 100 per cent financing and repaid it at the same monthly payment which would retire this debt in 20 years. He not only saves the original $1,300 reduction but also $1,881.80 in additional interest charges. This saving in cost and shortened term of repayment has been effected without any added cost to the veteran. A reduction of only 13 per cent in the original cost of the house to the veteran will save him nearly 32 per cent in his ultimate cost. This should be a challenge to the home building industry—and I mean all parts of it, materials, builders, sub-trades, building trades labor and finance—to see that the original 13 per cent is saved for the veteran. It is also a challenge to veterans' organizations and to Congress to see that it is done—a reduction in *price*, not a reduction in *size* or *quality* of the house.

Get Busy, Congress

Congress should seriously inquire whether the cost of building a house can be cut. If the answer is no—then who makes such a statement and how can he prove it? If profits are so thin in the house building field, how can builders afford to pay the premiums some do pay for FNMA finance? One veterans organization suggested that the cure for the premium being paid for 100 per cent financing is for the government to make direct loans to builders. Did they include in that suggestion a requirement that builders must cut their prices some certain percentage? Does direct government lending insure that the builder will pass on presumed savings to the buyer?

While I have always disagreed with the wisdom of the Servicemen's Readjustment Act as it applies to real estate, I have felt that it was something given to the veterans; and that, as a mortgage lending institution, it was our obligation to assist them in every way possible. But this assistance did not include making loans that would be unwise for the borrowers.

Nor have we believed that assistance to the veterans included making loans where the sale was primarily for the benefit of the seller and of questionable value to the veteran. Neither have we believed that assistance to the veteran included making loans not sufficiently good to be placed in our own portfolio.

We make 501 loans for 100 per cent of selling price, but these loans are for our own portfolio and many of them remaining unpaid are now in our portfolio. We make them when we believe they are to the benefit of the veteran and where other factors, including price and ability to carry the debt, are favorable.

Certain segments of the home building industry appear to be supporting an expanded FNMA. Can it be possible that the very lenient terms of FNMA are necessary to maintain the present activity of the home building industry? If this is so, then we are nearing the saturation point of the housing demand of the veteran.

We have kept the demand for homes for veterans alive and have anesthesized him to everything except small or non-existent down payment and "so much per month," by the use of what cannot be termed other than loose mortgage credit. Now are we going to expand the "veteran" market by still "looser" mortgage credit, or are we going to keep the "needle" in the building industry by taking care of the "middle" income group? Or are we going to "double in brass" and take care of everybody?

Changed Conditions

Whatever program is used must eventually come to an end. When that end comes, what do we do with the excess housing? Does the government buy this excess supply of housing which the house-building industry has been encouraged to produce, and then keep it off the market so that it will not weaken the price of other properties?

The VA is properly diligent in scanning certain charges passed on to the veteran when he buys a house. My imagination is not quite broad enough to understand why a fee paid by a house builder to anyone handling 100 per cent FNMA finance for him is not in the same class as other charges. If it is not passed on to the veteran, who pays it?

Is the mortgage broker, who for a fee, handles 100 per cent veteran's loans with the sole intent of selling them to FNMA, thinking only of the profit he is making and is he, by this act, justifying the proponents of direct government lending and discrediting the mortgage banking business?

When are we going to have the character and courage to refuse to do those things that are detrimental to our business or profession, as a whole, even though the act is legally permissible and personally profitable?

When are we going to get smart enough to realize that it is going to be necessary for all of us to oppose *all legislation* detrimental to our country and our way of life even though some part of that legislation is favorable to us?

(Continued page 22, column 2)

Farm Lending Is a Little Tighter Now

Lenders are thinking that when farm income drops, land values will follow

WHILE conditions ease somewhat in the city mortgage field with competition becoming more intense and a little easier tone in prevailing rates, conditions in farm mortgage lending become somewhat tighter.

In the opinion of many observers, one of the most significant developments in the farm real estate market during the past year has been the gradual reduction in the amount of funds available for the purchase of farms and the more conservative lending policy being adopted by many lenders. With net farm income in 1949 expected to show more than a 20 per cent below the 1947 peak, fewer buyers are able to pay all cash and more are seeking relatively large loans. This situation is less evident in the Corn Belt and Great Plains than in the Southeast and Pacific Coast regions, government reports show.

The outlook for future farm income is also partly responsible for the general tightening in credit conditions noted in some areas. Many lenders have tended to lower their appraisals of sound loan values and increase the amount of down-payment required in the expectation that land values will follow the downward trend in farm income. Individual loan applications are being screened more closely.

Available government data, which may overstate the proportion of cash purchases because unrecorded mortgages and contracts are not included, indicate a small but consistent increase in the proportion of credit sales in recent years. During 1945 and 1946, for example, a little more than two fifths of all sales were financed in part by credit. This proportion increased to 51 per cent in 1947-48 and to 55 per cent in 1948-49. The amount of credit extended, however, has remained fairly constant at between 50 and 55 per cent of the purchase price, on the average.

Total volume of farm mortgage recordings, which includes a mortgage credit for the purchase of land as well as for other purposes, also provides a measure of farm mortgage activity. Preliminary data for the first 6 months of 1949 indicate a reduction of about 3 per cent in the total volume of mortgage recordings compared with the same period of 1948. Since the volume of sales in 1949 appears to have decreased by an amount greater than this, it is probable that a larger proportion of new mortgage recordings are for the purpose of refinancing old mortgages and for capital improvements.

Shifts in Lending

Some significant shifts are also apparent in the source of credit for farm mortgages. Dollar volume of mortgage loans made by the Federal Land Banks during the first 6 months of 1949 was 16 per cent larger than in 1948. Insurance companies and miscellaneous lenders were the only other groups to show an increase in lending activity, with gains of 3 and 10 per cent, respectively. Commercial banks showed a decline of 14 per cent in the dollar volume of their loans, and individuals loaned 5 per cent less than during the comparable period of 1948. In spite of these declines, these two classes of lenders supplied about 60 per cent of all mortgage credit during the first half of 1949 as against about 65 per cent in the same period of 1948.

Another indication that there is less money available for farm land purchases is seen in recent figures on bank deposits in agricultural areas. As of June 30, 1949, total deposits of individuals, partnerships and corporations in all insured commercial banks in 618 primarily agricultural counties was 5.4 per cent less than on the comparable date of 1948. Deposits in these "country" banks are now nearly four times the 1940 level, and since this is the first decline since pre-war it may indicate the beginning of a downward trend. Areas showing larger than average declines in bank deposits include the Pacific Coast States, down 10 per cent and Texas-Oklahoma, the Lake States, and the Southeast, each down 8 per cent.

Some legislative threat is always looming on the farm mortgage horizon, it seems. Probably no MBA member today doing a farm loan business can recall a single period when there wasn't something ahead that would make lending a little tougher and take a little more of it from private hands and put it into government hands.

This time it is a proposal to make permanent the so-called Frazier-Lemke farm bankruptcy law, enacted 15 years ago as a depression measure but which expired in 1949. Now a bill before the house judiciary committee would put it back—for good. The senate has already passed the measure.

Equitable Life takes a dim view of the possible consequences and says that "in the event of even a mild agricultural depression, it could bring about the virtual end of farm mortgage lending and borrowing as we know it today.

"Farm borrowers would then either be forced to deal largely with government owned and operated 'lending' bureaus set up to replace the banks, life insurance companies and Federal Land Banks which would no longer be able to assume the losses likely to result from the additional credit hazards created by such legislation, or they would have to rely on the haphazard credit facilities made available by individual lenders."

"We think," said President Walter C. Dean of the Berkeley Federal Land Bank, "that the Senate bill and the nearly identical companion bills which are under consideration definitely would tend to dry up farm mortgage credit because of the manifest inequities of certain of their provisions."

Very briefly, the proposed bills would stop all collection proceedings on delinquent farm loans for several years after a petition for bankruptcy was filed, during which a nominal rental would be paid. Redemption of the mortgaged property would be made possible at an appraised value fixed by local and often biased appraisers, with all debts wiped out and the entire expense of the proceedings, including the fees of the debtor's attorney, paid by the creditors.

Justice Brandeis ruled 15 years ago that to permit redemption on an appraised value basis, rather than at a price fixed by judicial public sale, and to compel a mortgage lender to relinquish the property to the borrower free of lien even though the debt was not paid in full, was contrary to long established principles of mortgage and bankruptcy law and unconstitutional. Nevertheless, the proposed legislation would make this procedure a permanent feature of the National Bankruptcy Act. Its proponents believe that the new legislation does not violate the due process clause of the constitution because of an opinion in 1940 by Justice Douglas. That opinion practically nullified the previous Supreme Court decision holding the first Frazier-Lemke act unconstitutional and it ignored the Congressional intent as expressed in the second Frazier-Lemke Act, the committee hearings and the statements made on the floor of the House and Senate when the revised Act was under consideration, and the reasoning of the Supreme Court as expressed by Justice Brandeis when the second Act was found constitutional, Equitable says.

One Mid-West attorney, long experienced in Frazier-Lemke cases, recently put it: "The purpose of this legislation is to enable a farmer to go into court and by appraisal and bankruptcy reduce the principal of his debt and repudiate the balance of it."

One of the most telling reasons why S.938 and similar proposals should not become law is that it will seriously restrict the supply of up-to-date, low-cost mortgage credit to worthy farmers, Equitable says.

Farmers, as a group, are traditionally "good payers" and their strong sense of responsibility toward debts is well recognized by all who deal with them. But the proposed legislation is so "loaded" in favor of the debtor, the bitter medicine of going through bankruptcy has been so sugar-coated, and the stigma usually associated with insolvency has been so thoroughly whitewashed, that many farm borrowers undoubtedly will be persuaded to take what seems to be the easy way out when they begin to feel the pinch of reduced net income. It seems not unlikely that the Federal courts would be overwhelmed by distressed farmers seeking to take advantage of the overly generous provisions of such a law rather than making every effort to work out of their predicament.

The probable result would be that farm lenders would have thousands of bankruptcy cases on their books. With heavy, unrecoverable expenses piling up and little prospect of reasonably early settlement of such cases, it is very doubtful if lending organizations would consider it wise to continue to make farm loans. Or, if they didn't stop lending on farms entirely, they would probably sharply curtail their operations and reduce the size of their loans as a protection against potentially heavy interest and principal losses and the expenses in bankruptcy cases which the law would bring about.

MBA intends to oppose this legislation when it comes up for consideration next year.

The Pre-Fabs Are Doing All Right

They felt the uncertainty early last year but are making a good showing now

TELL the average mortgage man or builder that prefabricated housing volume and public housing construction last year was about on a par and the chances are that he won't believe you. Most of us are highly conscious of public housing while relatively few appreciate how strongly the pre-fab field has revived. Last year private construction accounted for about 96 per cent of the million units while pre-fab volume was around 35,000. It will be different this year of course with the government's big public housing effort getting under way but the prefabricated manufacturers continue to show conspicuous gains. Goal for the industry this year seems to be around 50,000 units; and if it surpasses that figure by a considerable margin, few people familiar with the strides it is making will be surprised.

It was exactly a year ago (*April 1949*) that *The Mortgage Banker* published an article on the pre-fabs, speculating on slackened activity in the industry and its uncertain future. Lack of capital and materials and a certain public indifference were cited as reasons for the impasse.

Production had slumped to 30,000 units in 1948; and in the first part of 1949—in common with generally unsettled conditions in many lines—the pre-fab outlook seemed at best somewhat obscure and *The Mortgage Banker* so reported.

But things began to improve with the pre-fabs as they did for most other lines as well and the 85 companies active in the industry ended up by turning out around 35,000 units, only 2,000 less than they did in 1947 when it was being widely hailed as one of the great postwar developments. Incidentally, about the same number of companies in it then are still active and operating.

What happened? The answer seems to consist of two explanations:

›› The industry turned to cheaper, more economical units, houses in the $5,200 to $9,000 bracket and, as a result, probably as much as 75 per cent of present production is in this price range, maybe even more.

›› Conventional builders, first somewhat cool to the pre-fab idea, changed

their thinking and this in itself has meant a terrific boost to the pre-fabs.

Surveying the field, the *Wall Street Journal* came to the conclusion that most pre-fab men think the industry is over the hump, that they have become established and accepted and that, with the anticipated high volume of building in the years ahead, they will participate in it to an increasingly greater extent.

And there is ample reason to believe they are right. Probably most of the poorly financed and inadequately backed firms have been eliminated by now and the 85 or so firms which remain have accumulated a good backlog of experience which will enable them to expand. One of the important factors all along has not been production but profitable sales and distribution. This is being licked.

The public seems to like what the pre-fabs are selling them. The Lustron house has been the most publicized; and while its future, if any, is obscure at the moment, the fact remains that its product has been widely praised and a lot of people now living in Lustron houses are highly satisfied.

One of the leading units in the field has been P. & H. Homes, division of Harnischfeger Corporation of Port Washington, Wis. This company attributes the upturn in its business to the introduction of an "economy" house which sells from $5,500 to $8,000 without land. Previously, the company had been making Cape Cod type dwellings in the $10,000 to $15,000 price range.

The company is making the advantages of its product known to mortgage lenders pointing out that speedy erection and uniform construction simplify financing, minimize processing time, cut down the number of inspections and effect other savings as well.

Another is American Houses of New York, one of the oldest firms in the industry. It expected to ship three times as many dwellings in the first quarter of this year as it did in the like period a year ago. Its goal for 1950 is 7,000 units, 4,000 more than last year.

American Houses makes a two-bedroom house priced at $6,000 to $7,500. It will offer a new low-cost unit this spring. This dwelling will have a steel frame, aluminum trim and walls of gypsum sheets. The roof will consist of a flat sheet of steel covered with asphalt.

"We've been working on this house for two and a half years," said American's president, John Taylor. "It is designed so several can be linked together into a one-story apartment building. I'm convinced we can build good two-bedroom apartments to rent for less than $60 a month. A trial unit of 14 apartments to rent for $40 a month is under construction now in Richmond, Va."

American has plants at Allentown, Pa., and Cookesville, Tenn., and is building a new factory at Lumberton, N. C.

Still another is National Homes Corporation, Lafayette, Ind. said to be the largest producer. In January it made three times as many houses as in the similar month last year. It has orders for approximately 10,000 dwellings to be delivered in 1950.

Still another is Gunnison Homes, Inc., New Albany, Ind., owned by U. S. Steel. Its "current rate of production is several times greater than that of a year ago" but officials have not revealed specific production figures.

Important in any appraisal of the industry is the changed attitude of builders. One builder analyzed what has come about in an observation to the *Wall Street Journal.* He said:

"When selling a conventional builder we point out that with the same amount of effort he can supervise a greater number of units during the construction stage and thereby increase his profits. By completing our houses in a shorter time he can cut down his own investment, or if he is using funds obtained from a local financial institution, the interest will be reduced."

William B. F. Hall, president of General Industries, Inc. of Fort Wayne, Ind., and well known in the mortgage field because of his former association with the mortgage department of Lincoln National Life, said:

"We prove to a local banker that he can build five times as many houses at the same margin of profit and on the same amount of invested capital and supervision that he is using now."

The obstacle which many thought

(Continued page 14, column 3—other Reports in Brief page 17 to 19)

NEW FEATURE

On the opposite page is the first of a series of analyses of economic and investment statistics affecting mortgage banking prepared by Frank J. McCabe, Jr., director of education and research, and Robert H. Pease, vice president, Draper and Kramer, Inc., Chicago, and a member of the MBA Educational Committee. The figures used have been collected from reliable sources. Other pertinent analyses will appear in THE MORTGAGE BANKER each quarter.

MORTGAGE BANKING TRENDS

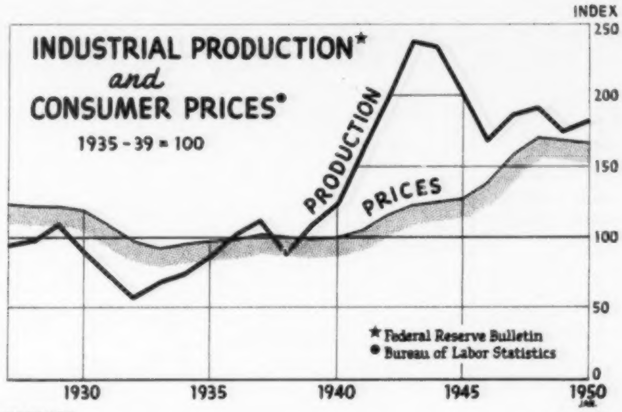
Industrial production holds at high level —so do prices. *(top graph)*

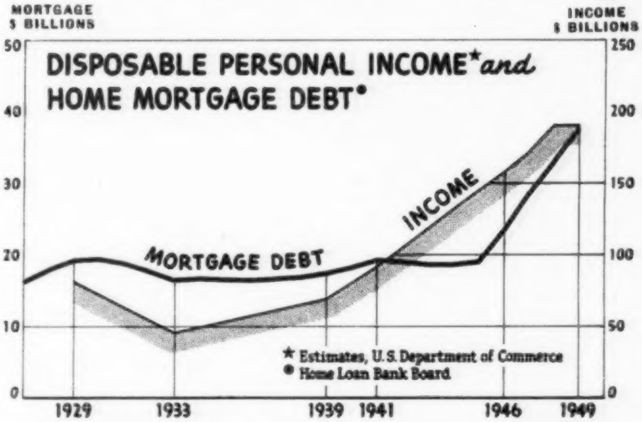
Home mortgage debt almost doubles in five years. *(second graph)*

Mortgage interest rates may soften as bond yields continue to decline. *(Moody's graph)*

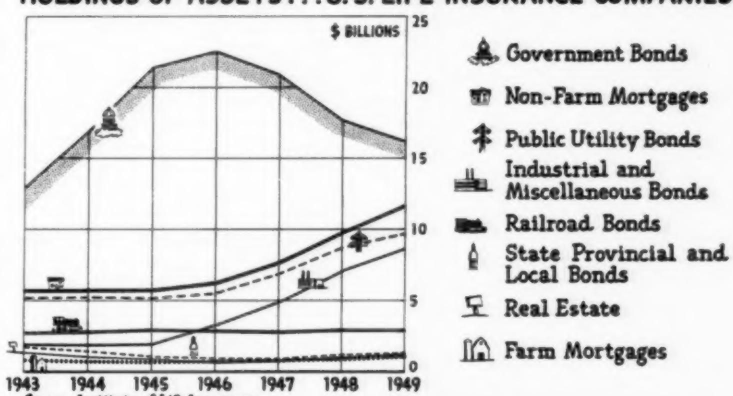
Life insurance companies double mortgage purchase in three years. *(third graph)*

Mortgage Market rapidly becoming an institutional market as 73% of mortgage debt is held by institutions *(two bottom graphs)*



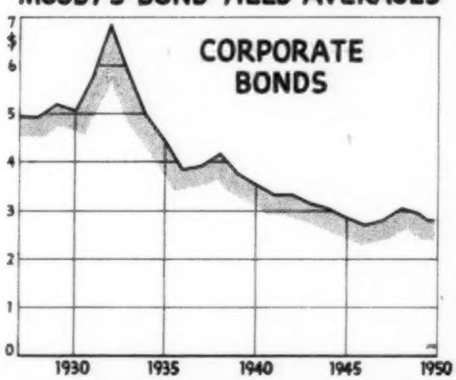


HOLDINGS OF ASSETS . . . U. S. LIFE INSURANCE COMPANIES

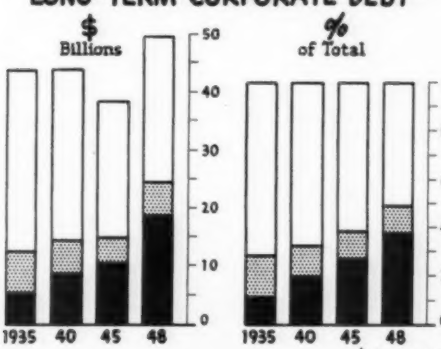


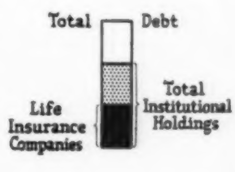
Source: Institute of Life Insurance

MOODY'S BOND YIELD AVERAGES

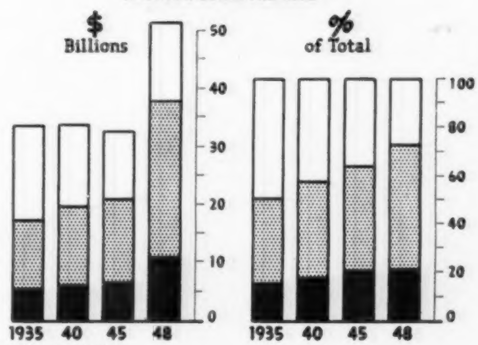


LONG-TERM CORPORATE DEBT☆





NON-CORPORATE MORTGAGE DEBT☆
Urban and Rural



☆*Source*: Harry G. Guthman, The Journal of Finance, March, 1950

New Housing Act Means New Conditions Ahead

Our members hear about them at our New York Conference

WHAT bad housing can do to the armed forces: At places like El Paso, declared Bertram E. Giesecke, chairman, Department of Defense Housing Commission, re-enlistments are down to 10 per cent—and housing is bad at El Paso. But at posts where it's better, re-enlistments range up to 80 per cent. A skilled technician, for instance, will cost the government $30,000 in training; and when he doesn't re-enlist because of terrible housing conditions, it's a big loss to the taxpayers. Mr. Giesecke, speaking at the New York Conference, outlined the changes which his department has recommended and on which action probably will have been taken before this issue is published. The commission realizes, he said, that what they've done won't solve every problem but it will be a big step toward getting the program started again after it was frozen last December. Seventy-three projects under Title VIII involving 32,000 units continued right on, he said, but others have been held up.

Can you consider you have complete tax exemption under Title VIII, Giesecke was asked. Yes, if the projects are on the post; and in your bids under the new program, assume no taxation, he declared. But he could not make a positive statement covering each and every project.

Do the services guarantee occupancy? Well, said Giesecke, for the slow payers there are commanders who can get after them and they will. And if the service men don't take all units you can rent to outsiders.

Giesecke is a partner of the architectural firm of Giesecke, Kuehne and Brooks of Austin, Texas. He won many friends for his defense housing effort at both the Chicago and New York conferences. With him at New York was Clarence Lowe, New York, another member of the three-man commission.

NEEL SAYS WE STILL HAVE BIG JOB TO DO

MBA'S Washington Counsel Samuel E. Neel did some plain talking to MBA members at the New York Conference when he said that defeat of the middle income legislation is no permanent victory. It'll be back, he said, and urged members to do everything they could to get investors back into the field in an important way. That's the best defense against this sort of legislation, he said.

Inclusion of the $150,000,000 for direct loans to veterans he described as somewhat of a mystery. No one actually sponsored it in the end, he said. The administration wasn't for it, the veterans' organizations weren't vigorously pushing it and the private end of the industry certainly was not for it. It more or less got in without strong sponsorship.

FACE IT: FANNY MAY IS OUT, CLARKE SAYS

BLUNT and unwelcome words for many: "Fanny May is out of existence as far as we're concerned. 505A is out and it may end sooner—maybe much sooner—than December, too. We must go to 501. And how can we handle interim bank financing with no Fanny May commitments?"

This came from W. A. Clarke, who moderated the New York Conference. For many who had leaned heavily on 505A and others who shuddered at no more commitments, they were cold, unwelcome words.

Questioner: "What are they trying to do to us down there in Washington, Mr. Clarke?"

Clarke: "Well, whatever it is we are trying to be constructive. There is great ignorance on the part of most people as to what constitutes our business, how it operates, what happens to the interest rate and how it is split up. We've got to do more to clear up these things. I sat in the office of the junior senator from Pennsylvania the other day listening to him talk to someone on the basing point question—a highly intricate, involved subject. I felt sorry for that man—he was supposed to know all there is to know about such a complex matter.

"And it's the same thing with our business—it's involved, complex, and we have done little to educate the people who ought to know. These housing committees I've appeared before this year are honest, they want

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to do the right thing. But government is going to take over this business unless we show valid reasons why it isn't necessary or right—and we can do that."

Giesecke: "May I suggest right there that you need not wait until trouble develops to contact your congressman or senators—and then jump in wildly. When one of them makes a good speech on the floor, drop him a note and say so. Keep in touch with him even though you haven't got anything specific in mind. Then, when you do want to get his ear, he'll remember you and give you an honest hearing."

Clarke: "A good suggestion. And remember this: If we don't make a good showing from now on, this co-op thing will be back—and next time the fight may not be on as advantageous terms as this time."

ON THE ROSTRUM: Dr. Jules I. Bogen, professor of finance, graduate school of business administration, New York University; W. A. Clarke, president, W. A. Clarke Mortgage Company, Philadelphia, and chairman of MBA's special committee on legislation; and Robert P. Gerholz, president, National Association of Real Estate Boards. Dr. Bogen and Mr. Gerholz addressed the Conference the opening day and Mr. Clarke served as Conference moderator.

EASTERN CONFERENCE WAS LARGEST IN N. Y.

MBA'S New York Conference had an element of drama and suspense rarely encountered in a trade association meeting. On the program were the men best qualified to tell mortgage lenders and investors what the new housing legislation meant. The conferees' report had just been released. The house had acted Thursday and the senate on the opening day of the conference. Thus all this combined to produce two packed days of engrossing discussion. For once there were far more questions than could be answered unless the session went on indefinitely.

Around 500 attended the Conference. As usual, instead of being an Eastern regional meeting the registration list showed members from just about every state.

No. 1. A CONFERENCE CONFERENCE: John C. Thompson, president, New Jersey Realty Company, Newark, and past president of MBA; D. Richard Mead, president, D. R. Mead & Company, Miami Beach; and Fred O. Condit, vice president, Title Guarantee & Trust Company, New York.

No. 2. MAYBE ABOUT FHA: Maurice R. Massey, Jr., vice president, Peoples Bond and Mortgage Company, Philadelphia; Walter L. Greene, assistant FHA commissioner; and Russell C. Rosenfelt, executive vice president, Peoples Bond and Mortgage Company, Philadelphia. Mr. Massey addressed the Conference on the outlook for rental housing and Mr. Greene took an unscheduled part on the program answering questions about the new housing legislation.

No. 3. IN THE CORRIDOR: Arthur O. Rosenlund, Germantown Fire Insurance Company, Philadelphia; Elmer S. Carll, Frankford Trust Company, Philadelphia; and Thomas E. Colleton, president, Lawyers-Clinton Title Insurance Company of New Jersey, Newark.

No. 4. CONTACTING: Durand Taylor, Durand Taylor Co., New York City: John R. Falkenburg and George E. Dickinson, Frank H. Taylor & Son, Inc., East Orange, N. J.; George W. Eichelberger, York Tabulating Service, Inc., York, Pa.; D. L. Stokes, D. L. Stokes & Co., Atlanta; and A. H. Owen, Pittsburgh.

No. 5. MORE CONTACTS: W. A. Charters and A. L. Eggleston, Investment Corporation of Norfolk, Va.; and J. Kraus, Jr., and G. V. Moy, Colonial Life Insurance Company, East Orange, N. J.

No. 6. A RICHARDS STORY: Franklin D. Richards, FHA commissioner; Howard J. Ludington, H. J. Ludington, Inc., Rochester, N. Y.; and James E. McGehee, James E. McGehee & Company, Inc., Memphis.

HOUSING ACT CHANGES MOST SWEEPING SO FAR

THE most sweeping changes ever made in the National Housing Act are incorporated in the legislation just passed by congress was the way Franklin D. Richards, FHA commissioner, described the Housing Act of 1950. And after he got into his interpretation of it, section by section, it became clear that it was no exaggeration. Although, as Richards said, FHA had been working on them assiduously for the past three weeks, the regulations are some time away and many, many portions needed clarification and interpretation. In a few instances, neither Richards nor Walter Greene could give a final conclusive answer to some of the questions.

Richards has high hopes for the new Section 8 of Title I:

"One of the most significant new programs provided by the new legislation will be the small homes program under Section 8 of Title I. Although this is somewhat similar to the previous Title I, Class 3 loan, there are certain significant differences. It is a mortgage insurance program, like Title II; the ratio of loan to value may be as high as 95 per cent and it will provide for an insurable mortgage in the amount of $4,750, with the Commissioner having the right to raise the amount in high cost areas to as much as $5,600. Under the new Section 8 insurance plan there will be minimum property requirements and FHA inspections.

"This program is one especially well suited to small communities, suburban and rural areas, which in the last few years have had a disproportionate share of new housing and, therefore, constitute a promising field for needed housing. I believe that the program fills a real need and that we are going to see a great deal of activity under Section 8 insurance."

As to the rate Richards said 4½ per cent would be it.

Question: "Are firm builder commitments available in all areas?"

Richards: "Generally, yes."

On the new Section 213—

Richards: "I think there will be a big volume under this new section."

Then came a $64 question—

"What will FHA charge for processing applications?"

Richards: "That's difficult to determine now. We'll announce that when the program has been studied further and the regulations ready."

Clarke: "Well, we know the $20 charge doesn't cover costs. FHA feels it cannot touch the mutual insurance fund."

Corridor gossip mentioned $50, but that's guesswork.

FNMA AUTHORIZATION WILL BE SPREAD OUT

JAMES L. DOUGHERTY of RFC and FNMA was a pinch hitter at the New York Conference.

"We in Fanny May wonder why people are proposing a successor at all. We think we've done a pretty good job. We should make $30 to $36 million this year. We wonder why many of these loans ever came to us at all. They must be good loans—you people made a lot of them. They've got government guaranty. We keep wondering why a lot of these loans ever came our way at all.

"But congress has curtailed us now. We are over-the-counter now. We'll naturally carry out every single valid commitment. To what extent, and what limitations will exist when we get back into the market, I cannot say."

Will big institutions get in there and hog the $250 million authorization? Definitely not, said Dougherty.

When FNMA sells, do the servicing contracts remain where they are, a member inquired quietly.

"Well, yes," said Dougherty. *(Some laughter here.)*

"I'm afraid not," said Moderator Clarke. "We've lost plenty."

A PLATFORM FOR MORTGAGE BANKERS
As enunciated by Milton T. MacDonald, MBA Vice President, at New York Conference

» *We must* preserve the private enterprise system at all costs.

» *We must* resist, as far as possible, competition by government and establishment of new federal mortgage lending bureaus.

» *We must* resist the granting by government of special privileges to politically-favored or special interest groups.

» *We must* at all times be able to make available to home builders and home owners sufficient financing for necessary housing in all price ranges and in all parts of the country.

» *We must* continue to advocate realistic mortgage interest rates at the lowest levels that will at all times attract private investment funds.

» *We must* defend the correspondent system of mortgage finance by constantly carrying on educational programs to enlighten Congress and the public.

» *We must* continue to cooperate to the fullest extent with all other private industry groups in order to promote private ownership of homes by the greatest possible segment of our people.

SPARKMAN HAD STRONG ARGUMENTS FOR BILL

SPARKS from Sen. Sparkman: "Do you bankers know that 213 is almost as liberal as in my bill? It has 40 year loans as against 50 years in mine . . . but here's something you haven't read or heard: If a man had no hard luck at all, no set-backs of any kind, he would have had a 36 year loan under my bill. . . .

"Marriner Eccles said that the security was greater and the risk of foreclosure less in the middle income proposal than it is right now.

"608 was the most inflationary housing legislation ever passed. I repeat, the most inflationary we ever had. Now I was for it; we should have had it, we had to have it but it was the most inflationary.

"Lower interest rates are coming, that is certain. . . ."

THE PRE-FABS

(Continued from page 10)

the industry could never surmount—codes and zoning regulations—is still a big problem but not as bad as was previously anticipated.

"Most localities throughout the country," reports a Harnischfeger official, "either have changed or are in the process of changing their codes so as to benefit from technological improvements."

All in all, the pre-fab field—or pre-assembled house as some prefer to call it now—has come a long way out of the woods and the future appears good. The Lustron debacle has left a bad impression with many members of Congress but the other side of the picture is the impressive showing made by the rest of the industry.

WHAT THEY SAID IN NEW YORK

» DEFENSE HOUSING TO ROLL: "The department of defense housing commission believes that with the adoption of the new procedures the construction of sorely needed housing for military personnel will get under way on a large scale. We hope that the competitive features of these procedures will bring out the best obtainable values for the government and result in the saving of substantial sums of money to the government and to the military personnel who must pay the rent on housing produced under the provisions of this Act."

—**Bertram E. Giesecke,** chairman, department of defense housing commission and partner, Giesecke, Kuehne and Brooks, Austin, Texas.

» THE AMERICAN WAY: "We began the most phenomenal program of home building the world has ever seen the day that restrictive and stagnating government controls over the industry were lifted. We have broken all past building records, and are well on our way to doing it again this year. The number of new homes put under construction this year thus far is 60 per cent greater than in the same period of 1949.

"Will this building pace continue? Last year the Federal Reserve Board in its survey of consumer buying intentions reported that there is still an unmet market for seven million homes in the next five years. This is based on definite intention to buy on the part of the public. If we add to this the number of families who say they might buy a house by 1956, the potential five-year market is for 12 million homes.

"The most important fact about this magnificent home production performance is the fact that economic planners in Washington did not arrange it. In fact, it was achieved in spite of attempts in the early post war years of political controllers to dominate the industry.

"A vigorous industry develops by constantly expanding its markets. It does so by improving the values it produces. Free and fair competition is one of its most effective tools in improving values for the buying public. Taking account of new demand and new types of demand and tooling up to reach such new markets is another means of healthy development."

—**Robert P. Gerholz,** president, National Association of Real Estate Boards.

» DEMAND TO CONTINUE: "The broad, active market for mortgages that financial institutions have provided in the past few years should continue to be available to mortgage bankers for some years to come, even if the volume of building and mortgage creation should be sustained at current high levels."

—**Dr. Jules I. Bogen,** professor of finance, graduate school of business administration, New York University.

» UNITE FOR ACTION: "Our backing and filling, refusing to take a stand, must come to an end. Can we not prove to the responsible people what is a proper rate of interest for a mortgage?

"It is only our over-ineptness and unwillingness to stand up and be counted that has permitted this condition to develop. If the bankers and builders and several other groups would present the true facts, well substantiated, they could not be refuted. Our performance over the years proves our experience, and it is to us that the government should turn for their facts and advice.

"This involves a trust that we must keep. We must not close our eyes to abuses. We must not permit our future to suffer for lack of statesmanship on the part of our industrialists and their associates.

"We must be ever mindful that the purpose of all our activities is to house the American public. We must have this purpose as the top objective in recommending legislation and in the conduct of our business.

"We can bring to an end the false information that is being promulgated by our enemies, who would socialize the housing in this country. The facts and figures they use have no authority and would have no standing compared to ones we can gather."

—**Thomas P. Coogan,** president, National Association of Home Builders.

» DOWNWARD MOVEMENT: "Looking beyond the current period of good business, it appears that the next major movement of production and business activity is likely to be downward. The backlog of accumulated demands at present prices for the products of heavy industry is declining fairly rapidly. The key industries of our economy will gradually have to reduce their output to a replacement basis or tap new demands. The present high levels of production are being supported by a sharply rising private debt which cannot continue to grow indefinitely at this pace. Thus, unless the international situation should change this picture, a sag-

ging tendency is likely to develop, perhaps within a year."

—**Roy L. Reierson,** vice president, Bankers Trust Company, New York.

>> RENTAL NEEDS: "The major segment of the rental housing need is for lower rent projects and for the minority group market. Just how low a rental we can build down to is a great problem, and every serious minded mortgage banker is acutely aware of this situation. We can finance, we are financing, and we will continue to finance the construction of rental projects for the middle income groups. We are producing rental accommodations for as little as $40 to $45 per month for 1-bedroom units. And, as our architect and builder friends resourcefully produce lower and lower cost housing, so we will finance and assist them to the very limits of our abilities.

"At this very moment, under current wage scales, we are producing decent rental accommodations for $40 to $45 per month for 1-bedroom units. Why then, do we need any special form of new legislation or government subsidy to serve the great numbers of our population in the so-called 'middle income group'? This market is being served."

—**Maurice R. Massey,** vice president, Peoples Bond & Mortgage Co., Philadelphia.

DR. NOURSE ON BUSINESS

(Continued from page 4)

moderate amount of inflation is the mainspring of the lifeblood or the psychological stimulus that makes a private enterprise system work at full capacity.

No one today can demonstrate that they are wrong, because no country with the same resources and possibilities and problems as ours has ever gone through precisely this experience.

Personally, I do not see printing press money as a certain or even likely outcome of our present situation, grave as I think it is. On the other hand, as I hear the way people who will be factors in this behavioristic process, from the cab driver to the big banker, from the small farmer to the executive in a giant corporation, I am impressed with the fact that uncertainty about the dollar is already gnawing at their thinking and may at any moment color the action of any one of these persons and, by rapid multiplication, become a national force that could seriously upset the comfortable process of postwar prosperity on which we are still travelling.

In case of doubt, some people are temperamentally disposed to say "take the long chance"; others "play it safe." It is along these lines that the battle will be waged and the outcome will be determined in the next few months and the next few years.

I, for one, fear that the stakes are too gigantic, not merely in terms of the continued welfare of 150 million people of our own but in terms of our opportunities and responsibilities as the keystone nation in a society of free governments, for us to afford to take such chances.

Moving sternly and realistically to a balanced budget would force some problems into a harder posture this year and might even give us a year or two of less active and less profitable business and somewhat more unemployment. But that is not too high a price to pay for assuring ourselves and the world that we have the determination and the "know-how" to put our affairs on a solvent basis.

WITH THEIR TONGUES IN THEIR CHEEKS

W. A. Clarke: "I asked Frank Richards how he slept last night and he said terrible. I asked him why. Frank said he worried all night wondering what you mortgage bankers were going to ask him this morning—and how he was going to answer you. I laughed about that because, truth is, Frank slept fine. Now let's give him a half hour of what he's expecting."

Bertram E. Giesecke: "Will these military bases stay put, was that the question? Yes, but if those Republicans should get in and decide that a certain Texas base might be better located in say, Vermont, well, that's another story—personally, I wouldn't worry about that. . . ."

James L. Dougherty of RFC and FNMA: "Well, I talked to Fanny May before I came up here last night to talk to you mortgage bankers. Fanny May said she didn't think you boys would love her in December as you did in May."

PEOPLE AND EVENTS

E. D. Schumacher, former president of MBA, and the only man who ever served two terms in that position, had the satisfaction this year of seeing how an idea of his has grown into one of the most important agricultural developments in the Mid South. Three years ago, Mr. Schumacher conceived a father-and-son forum on soil conservation which has now grown into a big annual event in Memphis, the Save-enrich Our Soil Competition. The contest is sponsored by the Memphis *Press-Scimitar*, the Memphis chapter of Friends of the Land, and the local Chamber of Commerce. It is primarily an effort to promote soil conservation, how to build land and conserve it. Soil conservation farmers from 50 Mid South counties made up the more than 800 who attended the third annual event.

Lee Thompson Smith, chairman of the executive committee and director of Home Title Guaranty Company, New York, has been elected a director of American Trust Company. Mr. Smith is a governor of the New York MBA.

R. D. (Buck) Walton, vice president, American General Investment Corporation, Houston, has been elected a director of American General Life Insurance Company. He is a charter member and past president of the Houston MBA and past president of the Texas MBA.

Harold A. Moore, senior vice president, Chicago Title and Trust Company, has been named chairman of the 1950 Chicago Committee Fund Campaign

Alexander E. La Pointe, vice president, Title Guarantee and Trust Company, New York, has been elected a director of Bush Terminal Buildings Company . . . Title Guarantee has just opened a new drive-in bank in Long Island City, first for New York's built-up industrial area.

Business Booms But Companies Die Faster

And it's no surprise that the number of building contractors shows biggest gain

WITH the first quarter of 1950 behind us and most optimistic year-end estimates well on the way to being fulfilled and, in many lines, even being surpassed, one significant paradox stands out: business failures are increasing. The rate of business deaths is now faster than at any time since the end of the war and in many lines the increases are sensationally high. But at that they're still below the 1939 rate.

The more than 9,000 failures which Dun & Bradstreet reported last year were almost double the total of 1948 and nearly three times those in 1947. The pattern continues in 1950. Reporting on January, Dun & Bradstreet said:

"Increases from the December mortality level occurred in all industry and trade groups except construction."

For businesses of all kinds, Dun & Bradstreet reported 9,246 failures in 1949, an increase of more than 700 per cent from the 1,129 failures of 1946. But it was still far below the 14,768 recorded in pre-war 1939.

The Department of Commerce estimates that the total number of going businesses in 1949 was 3,907,000 compared with 3,976,000 in 1948. The official count in pre-war 1939 was 3,305,000. The 1939-49 net gain was thus nearly 20 per cent.

Where have the greatest casualties been in recent years? Last year the death rate of businesses in these 31 groups were up by the large percentages shown from the low period in 1946:

Automotive Equipment, Wholesalers	3,300%
Building Materials, Hardware Wholesalers	2,420
Furniture, Home Furnishing Stores	2,000
Food & Liquor Stores	1,828
Building Materials, Hardware Retailers	1,773
General Merchandise Stores	1,455
Clothing Stores	1,305
Leather & Products Producers	1,271
Food and Farm Products Wholesalers	1,188
Cloth and Apparel Manufacturers	1,182
Restaurants, Bars	1,031
Food Processors	968
Drug Stores	955
Automotive Retailers, Filling Stations	850
Cleaners, Repair Shops	842
Dry Goods, Wholesalers	800
Apparel Wholesalers	700
Hotels	700
Paper, Printing, Publishing	613
Lumbering, Wood Products	556
Laundries	529
Stone, Clay & Glass Makers	511
Construction Firms	503
Iron & Steel Producers	477
Chemical, Drug Wholesalers	467
Transportation Companies	460
Mining & Oil Firms	421
Undertakers	350
Chemical Producers	337
Transport Equipment	110
Machinery Makers	108

Construction contractors, incidentally, have shown the greatest growth among business firms in recent years. The government estimates that there were slightly less than 200,000 such business firms operating in pre-war 1939. The 1949 count found 321,000 out to get a piece of the big building volume. And so far in 1950 their number is still growing.

Nearly $11 Billion of Mortgage Loans

The life companies own somewhere around that amount now, or about 20% of their total assets

THE life company position in the mortgage field is an impressive one, but just how impressive can be gained from a review of current data just available.

At the end of 1948, U.S. life companies had $10,823,000,000, or 19.5 per cent of their assets, in 1,180,000 mortgages of all types.

Individual homes accounted for 80 per cent of the number of mortgages and over 40 per cent of the amount—which means that the purchase of nearly 950,000 homes was being aided by nearly $4½ billion of life insurance funds. Forty-five per cent of the home mortgages were in amounts under $5,000 and 98 per cent were in amounts under $15,000. The average home mortgage outstanding was under $5,000.

In addition, some 60,000 mortgages, 5 per cent of the total, were on multiple family dwellings. The average size of all such mortgages was under $40,000.

Over 140,000 farm properties were being financed to the extent of nearly $1 billion—an average size of about $7,000. Thus nearly 97 per cent of the life insurance company mortgages were on housing—individual homes, multiple family dwellings or farms.

The remaining mortgages, somewhat over 3 per cent of the total, were on non-farm commercial properties and numbered nearly 40,000. Of these, 35 per cent were in amounts under $15,000, and 84 per cent were smaller than $100,000. The average size of these mortgages was in the neighborhood of $75,000.

A similar distribution pattern by type is shown for the new loans made during the first half of 1949, but the average size loans were somewhat larger. This is understandable since the average size loans of the outstanding mortgages reflect amortized values. During the first six months of last year, U.S. life companies loaned $1,682,000,000 on 184,000 mortgages. The distribution by type was as follows:

» $780,000,000 or 46 per cent to finance 145,000 non-farm individual homes.

» $406,000,000 or 24 per cent on 8,000 multiple family dwellings.

» $182,000,000 or 11 per cent on 26,000 farms.

» $314,000,000 or 19 per cent on 5,000 commercial properties.

Complete 1949 figures and those for 1950 so far will further accentuate the life companies' increasing interest in mortgages.

Number of Life Companies Totals 609, Highest in History of the Country

At the start of this year there were 609 legal reserve life insurance companies in the United States. This is 25 more than a year ago, most of the new companies being in the south and southwest.

Number of life companies has increased materially in recent years, the present total being 146 greater than only four years ago. There are now more than seven times the number in business than in 1900. The smaller, younger companies have for some time shown a greater rate of growth than the older, larger companies.

One or more life companies is domiciled in every state, with the single exception of Wyoming. Texas is the leading state, with 108 companies, Louisiana second with 82 and Illinois third with 30. Twenty-four states have ten or more companies each.

The spread is even more strikingly shown in the home city distribution. Company home offices are located in 185 cities. There are 36 cities with five or more home life insurance companies. Leading city in number of companies is New Orleans, with 39. Dallas, Texas, is second, with 32 and Chicago third with 22. Other leaders are: Houston, Texas, 20; Philadelphia, 18; New York, 18; Fort Worth, Texas, 15; Washington, D. C., 12; Des Moines, Iowa, 12; Lincoln, Nebraska, 12.

Banks and Life Companies Have Large Money Pools Available for Mortgages

By J. R. DUNKERLEY
Deputy Manager of MBA

FOR banks and insurance companies, bonds are important but real estate loans are their largest revenue producers; and nearly all of the employable funds of savings and loan associations are invested in real estate loans.

Compare the savings growth of these institutions between 1940 and 1949 and look at their real estate loan portfolios during that same period. Mortgages in all banks increased from $9.38 billion to $18 billion, or almost doubled; in the savings and loans, the increase was from $4 billion to $11.7 billion, or almost treble. Mortgages held by insurance companies grew from $5.9 billion to $12.9 billion, or more than doubled.

Against all savings deposits, banks have employed 32.7 per cent in real estate loans; against all share accounts, savings and loan associations are loaned up to a little under 100 per cent; and insurance companies hold 25 per cent of their policy reserves in real estate loans.

Thus, the savings and loans must now look either to new funds gathered from shareholders or to borrowing from government agencies if further loans are to be made by them. But banks and insurance companies have a long way yet to go before they would either reach their statutory limits for lending or exceed the voluntary limits set by themselves as constituting sound lending policies.

If savings institutions approached an investment of 50 per cent of their savings deposits in mortgage loans, and the mortgage terms and credit of the borrower were satisfactory, there would be about $10 billion in potential credit for mortgage purposes available now—enough to absorb the probable increase in all mortgage loans required for 1950.

This does not include new funds which would be available for mortgage placement each year, derived from the annual pay-off of loans already held. A recent check indicates that at the present time the annual mortgage pay-off in mutual savings banks is between 8 and 10 per cent. Commercial banks, often requiring a more rapid amortization, have an annual pay-off ranging from 10 per cent to 12 per cent. Replacement of these funds in mortgage loans would add more than $1 billion more to the possible reservoir of funds for mortgage investment.

Surveys show that interest rates on mortgage loans fall largely between 4 per cent and 5¼ per cent in all states. The average rate for the country is approximately 4½ per cent. The lower rates are generally in cities.

AT NEW JERSEY MBA'S MORTGAGE SERVICING CONFERENCE: Nos. 1 and 2, views from both sides of the ballroom showing the more than 200 who attended this first local mortgage servicing program.

No. 3. OFFICERS AND SPEAKERS: Seated, left to right, Milton T. MacDonald, MBA vice president, former president, New Jersey MBA, and vice president, Trust Company of New Jersey; Thomas E. Colleton, New Jersey MBA president and president, Lawyers-Clinton Title Insurance Company of New Jersey, Newark; Mr. Vieser; Mr. Clarke; Mr. Stallard. Standing, Fredric S. Bayles, New Jersey MBA executive secretary, and vice president, Garden State National Bank, Teaneck; Leslie M. Steele, Conference committee member; Addison K. Barry, New Jersey MBA second vice president and assistant cashier, National Newark and Essex Banking Co., Newark; Mr. De Huszar; Joseph C. Hudson, Main and Company, Philadelphia; Mr. Gill; Mr. Holl, and Mr. Kelly.

No. 4. ON THE ROSTRUM: Left to right, Leslie M. Steele, conference committee member; Mr. De Huszar; Mr. Vieser; Mr. Colleton, and Mr. Gill. Speaking: Mr. Stallard.

NEW JERSEY MBA HOLDS FIRST SERVICING CONFERENCE SPONSORED BY A LOCAL GROUP

While 1950 marks the tenth year of MBA regional clinics, this same type of meeting has also become an established part of local association activities in many sections of the country. This Spring the Detroit MBA will feature a clinic on April 26 and Philadelphia MBA has one scheduled for May 9. MBA is featuring its own regional Clinics in Miami, Denver, and Des Moines.

Likewise, educational meetings similar to those which MBA inaugurated at New York and Northwestern universities are becoming established affairs with other local groups, notably the Chicago, Cincinnati and Detroit MBAs. And now the New Jersey MBA has taken the lead in inaugurating a Servicing Conference similar to the one which MBA inaugurated at the 1949 national convention in Chicago.

Held in March at the Robert Treat Hotel in Newark, this first Mortgage Servicing Conference of the New Jersey group attracted an attendance of more than 200. Milford A. Vieser, Mutual Benefit Life Insurance Company, headed the committee arranging the meeting which also included Walter J. Gill, Leslie Steel and Philip Zinman.

William I. De Huszar, treasurer of Dovenmuehle, Inc., Chicago, and author of MBA's *Handbook of Mortgage Loan Servicing Practices,* spoke on collections and delinquencies, Andrew Holl, assistant counsel, The Mutual Benefit Life Insurance Company, spoke on taxes and Carton S. Stallard, vice president, Jersey Mortgage Company, Elizabeth, spoke on the insurance side of the business.

W. A. Clarke, chairman of MBA's special committee on legislation, addressed the luncheon session on the outlook for national legislation affecting the mortgage industry and concluded that the Sparkman proposal was "the most iniquitous thing ever proposed to be passed off on this country." He warned it would have meant the end of the mortgage business in this country as we have known it in the past.

At the afternoon session, John W.

(Continued next page)

YOUNGER MEN HANDLE CHICAGO MBA CLINIC

More local mortgage banking associations are holding Spring Clinic meetings this year. Detroit's is scheduled for April 26 with morning and afternoon sessions and a dinner meeting in the evening with Paul W. McCracken of the school of business administration, University of Michigan, as speaker. The morning session is devoted to VA loans, including talks on servicing, defaulted loans, processing procedure as well as a discussion of FNMA procedure. The afternoon session is given over to FHA lending policy, minimum property and construction requirements and rental housing. Servicing and commercial lending will complete the afternoon program.

Joel K. Riley and Walter Gessel will serve as moderators. Governors of the Detroit group this year include Hans Gehrke, president, Mr. Riley, vice president, A. F. Bassett, secretary-treasurer, Charles P. Besancon, Melville P. Forhan, Ronald W. Bainbridge, Oscar M. Onstad, S. M. Earp, Hubert Haeussler and S. D. Thomas.

» CHICAGO: In the Windy City, the Spring meeting is devoted to servicing and will be conducted by the younger men of the Association. George H. Dovenmuehle, Jr., is program chairman and William I. De Huszar of the same firm and author of MBA's *Handbook on Mortgage Loan Servicing Practices* will be moderator.

Speakers include Richard Delaney, Percy Wilson Mortgage and Finance Corp., Emil Seliga, Talman Federal Savings and Loan Association, and Harry Prescher, assistant secretary, Greenebaum Investment Company. These are names that have appeared infrequently on Chicago MBA programs or not at all. The younger generation in the mortgage business is coming up.

NEW JERSEY CLINIC

(Continued from page 20)

Kelly, service manager, Eastern Mortgage Service Company, Philadelphia, spoke on bookkeeping and accounting and James W. Rouse, The Moss-Rouse Company, Baltimore, spoke on servicing costs and audits.

The Conference even featured an exhibit with big national machine bookkeeping companies among the participants.

REUBEN A. SCOTT IS NEW HEAD MPLS MBA

Reuben A. Scott, Northwestern National Life Insurance Co., has been elected president of the Minneapolis MBA.

Named vice president was Gordon Seibert, David C. Bell Co. Robert Stebbins, Midland National bank, was elected treasurer, and Ray Cleveland, Twin City Federal Savings and Loan association, was re-elected secretary.

Named to the board of directors were Anton Hanson, Chek Eide, John Rutledge, R. H. White and Ralph Knauss.

CARTON S. STALLARD NEW JERSEY MBA HEAD

Carton S. Stallard was elected president of the Mortgage Bankers Association of New Jersey as successor to Thomas E. Colleton.

Stallard is vice president of the Jersey Mortgage Co. of Elizabeth. Colleton is president of the Lawyers-Clinton Mortgage & Title Insurance Co.

Addison K. Barry of National Newark & Essex Banking Co. was elected first vice president; Jack Kraus, mortgage loan officer, Colonial Life Insurance Co., second vice president, and Milford A. Vieser, vice president, Mutual Benefit Life Insurance Co. in charge of mortgage investments, treasurer.

New governors are: Leslie M. Steele of Teaneck, vice president of the Underwood Mortgage & Title Co.; Vincent B. Miner of Essex Mortgage & Title Guaranty, Montclair; Charles Seibert, New Jersey Realty Title Insurance; Walter J. Gill, vice president, Alexander Summer Mortgage Co.; Frank B. Steyert, president, South Orange Trust Co., and Franklin O. Bitting, Paterson Savings & Trust Co.

Frederic S. Bayles, vice president of the Garden State Bank, Englewood, was continued as executive secretary.

The association voted an increase in its annual dues.

» CINCINNATI: When Cincinnati MBA held its spring meeting it labeled it an education clinic and devoted an entire day to a wide range of subjects concerning the business—architectural and valuation processing, preparing the commitment, inspection requirements, closing operations, default servicing. Among the speakers were Landon Wallingford, Association president, James H. Barker, Elmer Kremer, Mumford Platt and Cy Kunz.

But Cincinnati went a step further—it invited the realtors and home builders to join them. As a result, a representative group was secured to hear mutual problems discussed and analyzed.

DESPITE BIG DEMAND FOR MORTGAGES, RATES WILL VERY LIKELY REMAIN AT LOW LEVEL

By MARCUS NADLER
Professor of Banking and Finance, New York University

COMPETITION for mortgages will continue keen. The decline in savings deposits of commercial banks is not surprising since a large number of depositors have transferred their funds from these institutions to other savings institutions where the rate of interest is higher.

Funds accumulated by insurance companies are substantial and will continue to grow. What effect pension funds will ultimately have on money rates is yet impossible to predict. It will depend to a considerable extent on whether pensions are handled by fiduciaries or by the government. If pensions are handled by private fiduciaries and they invest the accumulated funds primarily in bonds and in mortgages, it would appear that the long-range outlook for money rates is downward.

The constant increase in the supply of funds seeking an outlet in bonds and mortgages creates a difficult problem for insurance companies, mutual savings banks, and savings and loan associations which must not only find suitable outlets for their funds but, in addition, must bear in mind the changes in the real estate market which are bound to have an effect on their present investments. Housing for people in the lower-income group, financed in part by government subsidies, is increasing and will increase even more in the future.

Moreover, once business activity turns downward, we may certainly expect increased efforts to stem the decline through increased housing construction. New, modern homes equipped with the latest labor-saving devices, under certain conditions could well exercise a depressing influence on prices of older real estate, the mortgages of which are held by insurance companies, savings and loan associations and mutual savings banks. Hence, while institutional investors will continue to be confronted with the task of finding suitable outlets for funds, they must also bear in mind the changing conditions and study carefully the effect they may have on the value of properties on which they hold mortgages.

The answer seems relatively simple. FHA insured mortgages may be considered as riskless assets. Greater care must be taken in appraising the present and future value of mortgages which do not carry federal insurance or which are not guaranteed in part

(Continued page 24, column 3)

WHAT THIS COUNTRY NEEDS

(Continued from page 7)

What are we mortgage holders to tell those boys when values recede and they find themselves bound to a payment contract stretching over a period up to twenty-five years (in many cases to the limit of their full employment income) to retire a debt on a home for which they paid too much?

What are we mortgage holders to tell the boys who, through reduction of income, illness or loss of employment, have lost their homes, the cash they paid down, and the theoretical equity they accumulated by payments which in many cases were so severe as to discourage them and their families?

Mortgage credit is a very small part in the cost of creating housing but few realize how small. The money we furnish to the home building industry is important. And what is even more important is that it should continue to be private and not government money. This is important not only to the lenders but the building industry as well. When we accept the principle of direct government loans on housing, it will be preceded, accompanied, or very shortly followed by, direct government building of houses. Let the home builder reflect that housing may not be built by him under a direct government home building program. The material man will probably sell at government prices, the sub-contractor will perform in accordance with instruction, the laborer's vote may not be quite so necessary and he will work the hours and at the price dictated by someone in federal authority.

During the next decade we must regain some courage and have something to say about how our own business is to be conducted. This must be accomplished *only* by a careful investigation of facts—then by publicizing those facts that the less informed may act deliberately rather than by casual impulse. Of course, there will be differences of opinion—that is democracy. But it will be a better democracy when we take a more active part in *all* the affairs of our country.

PERSONNEL

MORTGAGE MAN WANTED

In fine mid-western city of 150,000 population, to solicit loans from contractors, realtors and others, for old established company with state-wide business. Some knowledge of appraising necessary. Give age, experience, references. Write Box 203, Mortgage Bankers Association of America, 111 West Washington St., Chicago 2, Ill.

PREFABRICATOR NEEDS HELP

Well financed successful Midwestern prefabricator needs young man willing to travel promoting rapidly expanding business. Must know FHA-VA procedures and understand home builders' problems. Great future. Write Box 204, Mortgage Bankers Association of America, 111 West Washington St., Chicago 2, Ill.

★ Ideas about SERVICING

WE WANTED TO SPREAD OUR WORK OVER THE MONTH AND FOUND THIS PLAN WORKED WELL

By GEORGE H. WILSON
Assistant Treasurer, Citizens Mortgage Corp., Detroit

ABOUT a year ago our servicing increased to a point where the manner in which we were handling payments in our cashier's department was unsatisfactory to the mortgagor because he had to wait in a crowded lobby while one of the cashiers located his mortgage and then typed up a payment receipt showing the distribution of the total payment to principal, interest, and escrow.

It was unsatisfactory to us because of the time required to process checks received through the mail. As practically all payments are due on the first of the month, we found that during the early part of the month the cashiers were overloaded. During the balance of the month they had little to do. Our problem was to find a satisfactory way in which this work could be spread out over the entire month.

Until MBA published William I. De Huszar's *Handbook of Mortgage Loan Servicing Practices,* there were no publications available that would enable us to secure the information we needed. We found that other mortgage companies were faced with similar problems. We therefore had to devise our own system.

What we wanted to accomplish was to smooth out the peaks of work in the cashier's department. If we could devise a system that would pre-schedule mortgage payements before the first of the month, it would accelerate the acceptance of payments. The satisfactory way in which we accomplished this goes as follows:

Our system is based on three main essential records: (1) an addressograph plate; (2) an amortization schedule; and (3) a payment receipt, briefly described below:

» The addressograph plate is prepared, immediately upon a mortgage being sold to a principal, showing the following information:

5721F 53-1 11321
John W. & Florence Smith
2721 Blank Street
Detroit 21, Michigan

The top line carries the following coded information, our loan number, the principal's bank account number, and the principal's identifying number. As long as Mr. Smith remains the mortgagor and the principal retains the loan, this addressograph plate will not change and can be used month after month. These plates are filed alphabetically in trays.

» The amortization schedule is stapled in a legal size folder and filed alphabetically by mortgagor's name and in addition to showing the principal and interest, gives the monthly escrow deposit and amount of total payment.

» The payment receipt is a printed three part, one-time carbon snap-out form, original in white and duplicate in yellow. The third part is white printed in red ink and is called the delinquent notice.

Shortly after the twentieth of the month the cashiers begin pre-scheduling the payments which are due and payable the first of the following month. This is done by first running the payment receipts through the addressograph machine thereby making a payment receipt for each plate in the addressograph trays. Then, by using the amortization schedules, they post the escrow amount, payment on principal and the interest arriving at a mechanical total payment which must agree with the total payment as shown on the schedule. The balance is put in non-add automatically as is also the date payment is due.

We have found that the machine bookkeepers have less trouble posting from the vertical rather than the horizontal type of payment notice or receipt. This work is now all done during what used to be the slack period.

These pre-scheduled payment receipts are now intersorted with those receipts still unpaid from previous months, each delinquent loan being stapled together. When a mortgagor now makes his payment he just gives his name to one of the cashiers who can immediately locate his receipt, accept his payment and give him the signed yellow or second copy of the payment receipt. The original is retained by our office and used for making up the various deposits and postings. The delinquent notice is destroyed. This transaction now only takes a fraction of the time that was formerly required at a time when time saving is of the utmost importance. We have found that errors under this system are practically non-existent.

On the tenth of the month the red lettered third copy is removed from the remaining unpaid receipts, the late charge added, and mailed to the mortgagor. This late charge is collected on all payments made after the fifteenth of the month. This plan has saved a lot of work for us but we realize that it is not a perfect system because already we have several additional time-saving ideas which we plan to incorporate.

This month another mortgage man relates his experience in effecting some time-saving and cost-cutting procedures in his own office. This Ideas about Servicing Department would like to hear of others and continues to invite contributions. And a contribution can be either a suggestion which the staff, in collaboration with the Research Committee, can look into, or a detailed description of what you did and how you did it. Some of the suggestions that have appeared in this column in recent months have landed on fertile ground judging from the replies of those who have written saying they got some ideas here. The Department is also soliciting questions about servicing which can be investigated with the thought that the answers will be of general interest to all readers.

RECORD ATTENDANCE EXPECTED FOR 1950 MBA SEMINAR AT N.U. JUNE 19 TO 23

Next big meeting on MBA's calendar is our Mortgage Banking Seminar at Northwestern University, Chicago, June 19 to 23, the major activity of our education committee. This year's course is the culmination of the accumulated experience of the courses of the past several years when something has been learned from each seminar as to the most efficient manner in which an educational effort of this kind can be most effectively offered. With business volume at its present level and the prospects for continued high activity, the appeal of the course will probably be wider this year than ever before. All MBA members have received the comprehensive announcement covering all phases of the Seminar and early applications are advised. Advance inquiries are the heaviest yet and it appears our quota will be quickly filled.

Subjects to be covered and the speakers who will handle them are:

History of Mortgage Lending by Dr. Arthur M. Weimer, Dean, School of Business, Indiana University.

Forecast of Mortgage Lending by James C. Downs, Jr., president, Real Estate Research Corp., Chicago.

The Loan Application and Personal Credit Examination by Fallon A. O'Leary, manager, mortgage loan department, Cornet & Zeibig, Inc., St. Louis.

Appraising Dwellings by Herman O. Walther, Chicago.

Appraising Apartments by Watson A. Bowes, Denver.

Appraising Stores Commercial and Industrial Properties by Frank D. Hall, vice president, Brooks, Harvey & Co., Inc., New York.

Underwriting the Mortgage Risk on Apartments by Homer B. Gibbs, assistant manager, mortgage loan division, The National Life and Accident Co., Inc., Nashville.

Underwriting the Mortgage Risk on Residences by Gerald A. Golden, supervising appraiser, mortgage loan department, Sun Life Assurance Company of Canada, Montreal.

Underwriting the Mortgage Risk on Stores by Richard M. Hurd, vice president, Teachers Insurance & Annuity Association of America, New York.

Selling the Loan and the Correspondent-Investor Relationship by William L. Leighly, vice president, Dovenmuehle, Inc., Chicago.

Construction Loans by Walter C. Nelson, vice president, Eberhardt Company, Minneapolis.

Closing the Loan by Robert E. O'Dea, trust officer, Chicago Title & Trust Co., Chicago.

Law for the Mortgage Banker by Robert Kratovil, title officer, Chicago Title and Trust Co., Chicago.

FHA Loans by Maurice R. Massey, Jr., vice president, People's Bond and Mortgage Company, Philadelphia.

G. I. Loans by Philip N. Brownstein, assistant chief, Loan Service and claims division, Veterans Administration, Washington, D. C.

Secondary Market by James L. Dougherty, President, Federal National Mortgage Association, Washington, D. C.

Servicing the Active Loan by Oliver M. Walker, president, Walker & Dunlop, Inc., Washington, D. C.

Servicing the Delinquent Loan by Aksel Nielsen, president, The Title Guaranty Co., Denver.

Acquiring New Mortgage Business by Allyn R. Cline, president, Cline Mortgage & Trust Company, Houston.

Effect of Interest Rates and Security Prices on the Mortgage Market by Robert H. Pease, vice president, Draper and Kramer, Inc., Chicago.

The Seminar committee is headed by W. L. Leighly, Chicago and includes Norman H. Nelson, St. Paul, Robert H. Pease and Ward J. Gauntlett, Chicago, Andrew S. Love, St. Louis, W. R. Bryant, San Francisco, Stanley Fosgate, Miami, and Jack D. Merriman, Kansas City. Secretary George H. Patterson will serve as registrar and the whole effort is under the general direction of Frank J. McCabe, Jr., MBA director of education and research.

MEMBERSHIP CAMPAIGN SETTING NEW RECORDS

As noted elsewhere in this issue (*see cover*), MBA's membership campaign continues to roll along with no let-up in effort put forth or results secured. Current emphasis is now on mortgage correspondents and from the satisfactory results being secured, it appears that this classification of potential new members will be thoroughly canvassed before mid-year. Recent new members admitted include:

ARIZONA, Tucson, Paul E. Greer Mortgage Company.

CALIFORNIA, San Francisco, Jamieson Towle Willoughby Corporation

DELAWARE, Wilmington, Gilpin, Van Trump & Montgomery, Inc.

FLORIDA, Dunedin, Bank of Dunedin; Sarasota, First Mortgage Corporation of Sarasota

INDIANA, Evansville, The Permanent Savings Association of Evansville; Indianapolis, Meridian Mortgage Company, Inc.

NORTH CAROLINA, Greensboro, C. H. Slater Realty & Mortgage Corporation.

OHIO, Akron, The Akron Savings & Loan Company.

OREGON, Salem, State Finance Company.

PENNSYLVANIA, Philadelphia, Heymann & Bro.; Saving Fund Society of Germantown.

PUERTO RICO, San Juan, Banco Credito y Ahorro Ponceno.

TEXAS, Fort Worth, The Kirk-Mac Mortgage Company.

VIRGINIA, Arlington, Wright Realty, Inc.

WASHINGTON, Seattle, Henry Broderick, Inc.

MARCUS NADLER'S VIEWS

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by a federal agency and a conservative amortization policy should be insisted on.

But it is fairly certain that business activity in 1950 will remain at a high level. Building will continue at a high level and the total volume of construction in 1950 may exceed that of 1949. Short-term rates have firmed and the long-term tap issue non-eligible for purchase by commercial banks has witnessed a minor decline in price and an increase in yield. It is doubtful that policies of monetary authorities will exercise any particular influence on mortgage interest rates. In the first place, the amount of new securities the treasury may offer to investors exclusive of commercial banks is not likely to be large. Moreover, before offering such securities, the treasury will examine carefully the investment needs of institutional investors. The treasury is not likely to adopt a policy that might reduce the supply of mortgage money and hence adversely affect building activity, upon which a continuous high level of employment depends to a considerable extent.